



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

AUG 19 1970

Dear Mr. Carlock:

We have reviewed the activities relating to the processing of fit and unfit currency received by the Cash Division, Office of the Treasurer, from local banks, Government agencies and overseas disbursing officers, and the cancellation and destruction of the unfit currency.

Our review was directed primarily toward an evaluation of (1) the methods and controls for processing currency in the Cash Division's Whole Note Branch, and (2) the controls over the cancellation, verification, and destruction of unfit currency.

We noted that joint control over unfit currency was not always maintained as is required by both the Department's regulations governing the destruction of security items and the Federal Reserve Currency Manual.

1. The Destruction Committee picks up currency from the Currency Verification Section, bundle counts it, places it in a locked tank truck, and transports it to the incinerator room where it is either burned immediately, or held in a vault for future destruction.

We were informed by the Chairman of the Destruction Committee that the Committee has 17 tank trucks for transferring and storing unfit currency; each tank truck is secured by a single padlock; and all padlocks can be opened by the same key. Both the Chairman and Vice-Chairman of the Destruction Committee have a key with which the padlocks can be opened.

2. We were informed also that the locked tank trucks containing currency awaiting destruction are placed in a vault which has a combination locked outer door and a key locked inner door. Both the Chairman and Vice-Chairman of the Destruction Committee have the combination to the outer door, and a key to the inner door; thus, the Chairman and the Vice-Chairman each have independent access to the vault and to the tank trucks containing the currency.

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We noted that each member of the Destruction Committee does not use an independent lock or seal on the destruction equipment (incinerator) as is required by both the Department's regulations governing the destruction of security items and the Federal Reserve Currency Manual.

1. The door at the upper level of the incinerator is secured by two padlocks each requiring a different key. We noted, however, that the keys are kept overnight in the same safe, and both the Chairman and the Vice-Chairman of the Destruction Committee have independent access to the safe.
2. The lower level of the incinerator has four doors which open into its burning area. Each door is secured by placing a bar across its face and a padlock on each end of the bar. Also, there are three doors which open into the ashes area of the incinerator, each of which is secured by a single padlock.

We noted that the same key fits all 11 padlocks used in the lower level of the incinerator, and both the Chairman and Vice-Chairman have such a key. Also, the Chairman and Vice-Chairman each have a key to the single lock on the door to the lower level incinerator room.

3. While the Chairman of the Destruction Committee has assistance and joint accountability in placing the padlocks on the incinerator each afternoon, we noted that he alone removes the padlocks from the lower level of the incinerator the following morning and observes the removal of the ashes from the previous day's burning.

We noted that the employees in the receiving cage of the Whole Note Branch cannot effectively act as observers of each other because they often work with their backs to one another, and their views of each other are often obstructed by stacks of processed currency. The Whole Note Branch has a requirement that at least two persons be in the receiving cage while currency is being processed and that each act as an observer of the others in the cage.

We noted in the cancellation process that the independent observer's view of the employee feeding currency into the machine was often blocked by stacks of unprocessed currency. The Federal Reserve Currency Manual requires that the observer be positioned so as to observe the movements associated with the placing of the notes in, and their removal from, the cancelling machine.

We wish to express our appreciation for the cooperation extended to our representatives during the review. Your comments and advice as to final action taken on these matters will be appreciated.

A copy of this letter is being sent to the Treasurer of the United States.

Sincerely yours,

Max A. Neuwirth
Max A. Neuwirth
Associate Director

The Honorable John K. Carlock
Fiscal Assistant Secretary
Department of the Treasury